



Paragon Australian Long Short Fund

MAY 2021

www.paragonfunds.com.au

*Since inception - 1 March 2013

PERFORMANCE DATA (after fees)	1 month	3 months	6 months	Financial YTD	1 year	2 year p.a.	3 year p.a.	5 year p.a.	Net Return p.a.	Total Net Return*
Paragon Aust. Long Short Fund (est)	+0.4%	+16.4%	+44.1%	+55.8%	+64.9%	+34.8%	+14.4%	+10.6%	+15.1%	+219.4%
ASX All Ordinaries Accum. Index	+2.0%	+7.9%	+11.7%	+27.1%	+30.0%	+10.4%	+10.5%	+10.5%	+9.3%	+101.8%
ASX Small Ords. Accum. Index	+0.3%	+6.1%	+10.4%	+29.3%	+26.7%	+11.0%	+7.9%	+10.3%	+7.7%	+77.0%

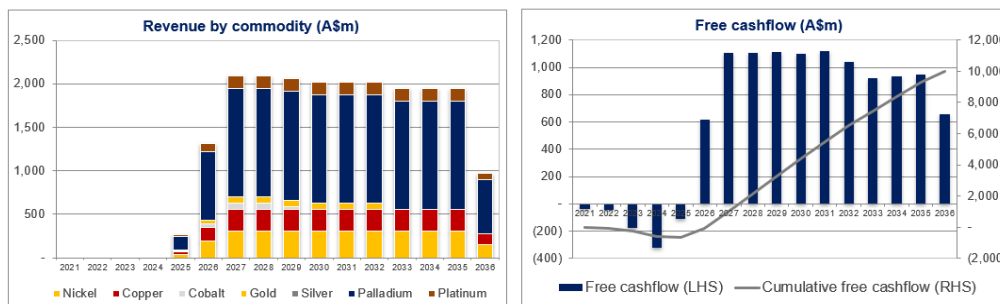
OVERVIEW

The Fund returned an estimated +0.4% after fees in May and +65% over 12 months, substantially ahead of the market's +30%. Global Indices were mixed: +0.6% (S&P500), -1.2% (Nasdaq) and 0.1% (Russell2000); Local Indices were up: +0.3% (Small Ords AI) and +2.0% (All Ords AI). Positive contributors for the Fund were Chalice, Cettire, Caspin and Adriatic, offset by declines in Ionic, Betmakers and our base metals holdings. The Fund remains highly liquid, with a median market cap of \$923m for our top 15 holdings.

US 10yr bond rates and US inflation were next to unchanged at 1.59% and 2.56% (7-yr highs) respectively, with real rates resuming their downtrend and falling -8bps to -0.84%. The US\$ index fell -1.6% to 89.4, closing below the key '90' support level. Gold and silver were up +7.8% to US\$1,907/oz and +8.1% to US\$28.03/oz respectively. Copper was up +4.4% to US\$4.68/lb and Iron Ore was up +9.5% to US\$208/t, both breaking record highs. The VIX continued its 'risk-on' downtrend falling 10% to 16.8, a new month-end post Covid-19 low. Biden released his first annual budget plan at US\$6t, substantially unfunded with deficits approaching 20% of US GDP. Every commodity is a winner in this environment.

PORTFOLIO INSIGHTS: Chalice's Julimar Pd discovery now 'world-class'; an Australian 1st

We first wrote about Chalice in [September 2020](#) and have updated investors on its progress many times since. Chalice has been an outstanding performer for the Fund, buying in at \$0.55/sh in early April 2020 (\$145m market cap) and currently trading at all-time highs of \$9.05/sh (\$3.2b market cap) – reflecting the quality and scale of its discovery at Julimar. Exploration results released recently continue to surprise to the upside. Chalice's Gonnevill zone (~2km within Julimar's 26kms strike length) is taking shape for the masses to see, and importantly, remains open in several directions. Based on our Gonnevill resource modelling, Chalice has delineated a high-grade 'mineable' 80mt+ at ~3.5g/t Palladium-Equivalent (~9moz Pd-E), which should see Palladium production of ~355koz p.a. along with strong by-products platinum, gold and base metals. Gonnevill is ~2/3 Palladium, which continues to trade near recent record highs at US\$2,832/oz - compliments of its strong fundamentals creating sustainable deficit markets. At spot commodity prices ('spot'), project revenues are ~\$2b p.a. and free cashflows (FCF) are ~\$1b p.a., as shown below:



Source: Paragon

At spot, Chalice is trading at a proforma (fully-diluted, fully-funded) EV/FCF of ~3x for its first yr of production, allowing nothing for their: 1) exciting 6.5km-long Hartog target at Julimar, located directly north of Gonnevill discovery; 2) ~\$125m of cash, as we assume they'll spend it on development; 3) valuable Victorian gold assets; and 4) 10% holding in Caspin which appears to have made its own Pd-E discovery 50kms away. Our 'Gonnevill-only' NPV (10%-real discount rate) is \$3.7b or \$10/sh, which excludes ~400mt of low-grade open-pitabile ore (as we don't yet know enough about its metallurgy). Hartog's coincident ground-geochemistry and electromagnetic work (great leading indicators for discovering Gonnevill) highlight the potential for substantial resource extensions along strike to the north. Drilling starts in the next quarter. If Hartog comes up trumps, Chalice could easily be a \$20/sh+ stock. Despite the stock's huge re-rate, it is not expensive. Whilst we have taken profits along the way to manage our position size, we remain long and strong.

DISCLAIMER: This report has been prepared without taking account of your personal objectives, financial situation or needs and should not be relied upon as the basis of an investment decision. You should seek independent professional advice before making any decisions regarding the content of this report, including a decision to invest. The Product Disclosure Statement for the Paragon Australian Long Short Fund is available from our website. There is no guarantee against loss resulting from an investment in the Fund and past performance is not a reliable indicator of future performance.

FUND POSITIONING & RISK METRICS

Fund Size	\$52.6m
Longs	34
Shorts	6
Net exposure	150%
Beta-adj net exposure/ Average since inception	98%/71%
Gross exposure	181%
Cash	-50%
Index Futures	0%
Correlation	0.53
% Positive Months	62%
Up/Down Capture	113%/67%
Liquidity (% saleable inside 10BD)	82%

UNIT PRICING*

NAV (Mid-Price)	\$2.7927
Entry Price	\$2.7968
Exit Price	\$2.7885

* Based on our estimated return.

Official UP to be issued ~BD7 by the Fund's Administrator.

FUND FACTS

APIR Code	PGF0001AU
Responsible Entity & Investment Manager	Paragon Funds Management Ltd
Strategy	Aust Equities L/S (long-bias), Fundamental, Concentrated. Global and unlisted permitted.
Objective	>10% p.a. over 5yrs
Structure	Unit trust
Domicile	Australia
Pricing/Applications/ Redemptions	Monthly
Min. Investment	\$25,000
Min. Additions	\$5,000
Min. Redemptions	\$10,000
Administrator	Link Fund Solutions
Prime Broker/Custodian	UBS